

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

FINAL DETERMINATION OF ACCEPTANCE

Petition of Atlas Energy Indiana, LLC for exception to) Case No.: DOG-2-2010
general unit size and well spacing requirements for)
horizontal New Albany Shale wells in portions of Knox)
County.

As provided in 312 IAC 16-5-2, an informal hearing was conducted under 312 16-2-3 and held in this matter commencing at 11:00 A.M. (Eastern) on May 11, 2010, before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the IDNR Division of Oil and Gas located at 402 West Washington St., Rm. W293, Indianapolis, IN 46204.

The purpose of the informal hearing was to consider the Petition for an exception to the well spacing and drilling unit requirements filed by Atlas Energy Indiana, LLC (Petitioner) for the following areas (Petition Area) in Knox County, Indiana:

Harrison Township

| Township-Range | Donations, Locations and Surveys |
|-----------------------|---|
| 1N-8W | Loc. 7, 218; Survey 3 |
| 1N-9W | Loc. 7, 65; Survey 3,18,24,30 |
| 2N-8W | Loc. 7,28,103,305 Don. 36-38,59-62,83,171,224,226-230 |
| 2N-9W | Don.7-17,32-40,58,59,161-179,246 Loc. 28,65,103,173,186,209,305 Survey 1-11,14,15,19-24,27-30 |
| 3N-8W | Don. 58,59,62 |
| 3N-9W | Don. 7,8,32,33,39,40,58,161 Loc. 35; Survey 4 |

Johnson Township

| Township-Range | Donations, Locations and Surveys |
|-----------------------|---|
| 1N-9W | Survey 1,2,18,24-26 |
| 2N-9W | Survey 7-19,24-26,41 |

Steen Township

| Township-Range | Donations, Locations and Surveys |
|-----------------------|--|
| 2N-8W | Don. 84,85,221-225 Loc. 119,149,150 |
| 3N-8W | Don. 80-90,102-116,125-139,154-158,160,163,221,222,245 Loc. 119,149,294,295 Survey 1 |

Palmyra Township

| Township-Range | Donations, Locations and Surveys |
|-----------------------|---|
| 3N-8W | Don. 58,62-64 |
| 3N-9W | Don. 3-7,17-23,25-33,39-58,63-71,74-81,89-94,100-102,116,161,180 Loc. 35; Survey 1-4,30,31 |

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division of Oil and Gas (Director) makes the following Findings of Fact, Conclusions of Law and Final Determination of Acceptance:

FINDINGS OF FACT

1. Petitioner Atlas Energy Indiana is a Limited Liability Corporation whose principal place of business is 1501 Cass Road, Suite B, Traverse City, Michigan 49684. Atlas Energy Indiana is authorized to transact business in the State of Indiana.
2. Indiana Code 14-37-3-3 requires the IDNR to regulate the spacing of wells for oil and gas purposes through the establishment of rules providing minimum distances between wells and adjacent properties, and minimum acreage requirements for each well taking into consideration of regional and geological characteristics and factors conducive to the most efficient and economical recovery of oil and gas.
3. 312 IAC 16-5-1 through 312 IAC 16-5-3 contain the rules adopted by IDNR for regulation of well spacing and drilling unit size.
4. 312 IAC 16-5-2 allows the Division Director to grant an exception to the spacing or drilling unit requirements of 312 IAC 16-5-1 and 312 IAC 16-5-2 where the request is supported by unusual regional or geological characteristics and the exception is conducive to the most efficient and economical recovery of oil and gas.
5. Natural Resources Commission Information Bulletin #58 is a non-rule policy document that established specific guidelines for drilling unit and well spacing requirements that are applicable to horizontal wells.

6. Petitioner asserts that it is the holder of legal title to and is the duly authorized representative of various owners of contractual or other beneficial interests in certain oil and gas leaseholds covering a majority of the acreage within the Petition Area.
7. Petitioner asserts that the Petition Area is not comprised of standard Quarter-Quarter Sections of land as established by the rectangular surveying system of the state of Indiana but contains divisions of land units known as Donations, Locations and/or Surveys that have not been surveyed as part of the rectangular surveying system. Petitioner seeks to establish drilling units using a superimposed grid overlay comparable to the rectangular surveying system of the state of Indiana.
8. Petitioner further asserts that all land located in the Petition Area is described using the north and south running range lines and the east and west running township lines. The exterior boundaries of the resulting sections of land shall be defined by following the township and range lines to the intersection of those lines. Each section shall be further subdivided into divisions of land commensurate with a Quarter-Quarter Section of land containing forty (40) acres, more or less (Drilling Unit Block), using the same method. A portion of one or more Location, Donation and/or Survey may be located within the boundaries of a particular Drilling Unit Block.
9. Petitioner proposes to establish horizontal well drilling units for the New Albany Shale formation within the Petition Area as follows:
 - a. To eliminate standard spacing restrictions between single horizontal drainholes drilled in separate drilling units, except that the portion of the well bore entering the New Albany Shale (Formation) and all portions of the lateral section of the well bore located within the Formation shall be drilled no less than three hundred thirty (330) feet from any unleased property boundary.
 - b. To establish drilling units for horizontal drilling of the New Albany Shale within the Petition Area comprised of two or more contiguous Drilling Unit Blocks, configured north-south, through which the horizontal drain hole shall traverse.
10. Petitioner asserts that establishing the proposed horizontal well drilling units is supported by regional and geological characteristics and would allow the most efficient and economic recovery of natural gas as follows:
 - a. Drilling into the New Albany Shale formation in and near the Petition Area has produced commercial quantities of natural gas.
 - b. The unique characteristics of the New Albany Shale formation and its low permeability requires the use of horizontal drainholes to allow the Petitioner to more efficiently and economically develop this unconventional shale gas resource at the Petition Area.
 - c. Drilling horizontal drainholes enhances gas recovery from the New Albany Shale formation by cutting across existing fracture patterns within the formation which are often more vertical than horizontal in nature, thereby facilitating the flow of gas from the shale, to the fractures, to the drainhole.
 - d. Drilling a single horizontal drainhole in the manner described by Petitioner can effectively and efficiently recover the natural gas resources within the proposed drilling units.


- e. The proposed exceptions to the General Oil and Gas Well Spacing Rules and General Oil and Gas Well Drilling Unit Size Rules will not result in a loss of resources within the New Albany Shale formation of the Petition Area. The variances will enhance recovery of the natural gas from the low permeability of the New Albany Shale formation.
11. Petitioner attached the following documents to its Petition: Exhibits “A1 and A2” – Map of Petition Area and Exhibit “B” – Leasehold Map.
12. As required by 312 IAC 16-2-3 (c), notice of the date, time, and place of the informal hearing held at the Indianapolis Office of the IDNR Division of Oil and Gas on May 11, 2010, was published in the Vincennes Sun-Commercial newspaper on April 22, 2010.
13. The following persons were present at the informal hearing held on May 11, 2010:

| <u>Person</u> | <u>Representing</u> |
|-----------------------------------|---------------------------|
| Karen Anspaugh, Traverse City, MI | Atlas Energy Indiana LLC |
| Mona Nemecek | IDNR Division Oil and Gas |
14. No objections to the Petition were submitted by any persons present at the informal hearing.
15. No objections to the Petition were submitted by any other parties, at any time on or before the date of this Final Determination of Acceptance.
16. Based upon a review of all relevant information, the Petition should be accepted in order to allow the Petitioner to proceed with the efficient and economical development of the proposed drilling units in accordance with the Final Determination of Acceptance.

CONCLUSIONS OF LAW AND FINAL DETERMINATION OF ACCEPTANCE

1. IC 14-37-3-3 and any rules promulgated thereunder apply and are pertinent to the subject matter of the Petition filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to approve this Petition.
4. The Petition, herein referenced, contains the elements required by law.
5. The well spacing criteria and drilling unit acreage requested by Petitioner are hereby approved within the designated areas in Knox and Sullivan Counties in Indiana for purposes of drilling horizontal wells for the production of natural gas from the New Albany Shale formation only.
6. This determination is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7.

May 18, 2010
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

NOTICE OF FINAL DETERMINATION OF ACCEPTANCE

NOTICE OF RIGHT TO APPEAL

CERTIFICATE OF NOTIFICATION TO AFFECTED PARTIES

Notification is herein provided that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, has approved and issued a Final Determination of Acceptance under Administrative Cause No. DOG-2-2010 with respect to a Petition for an exception to the well spacing and drilling unit requirements found in 312 IAC 16-5-1 through 312 IAC 16-5-3 filed by Atlas Energy Indiana, LLC (Petitioner). The approval authorizes the Petitioner to establish drilling units for horizontal wells producing natural gas from the New Albany Shale formation within the Petition Area by using a superimposed grid overlay comparable to the rectangular surveying system of the state of Indiana:

- To establish drilling units for horizontal drilling of the New Albany Shale within the Petition Area comprised of two, three, four or five contiguous Drilling Unit Blocks, configured north-south, through which the horizontal drain hole shall traverse; and
- To eliminate standard spacing restrictions between single horizontal drainholes drilled in separate drilling units, except that the portion of the well bore entering the New Albany Shale (Formation) and all portions of the lateral section of the well bore located within the Formation shall be drilled no less than three hundred thirty (330) feet from any unleased property boundary.

The Petition Area is comprised of the following areas in Knox County in Indiana:

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The terms of the Final Determination of Acceptance are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person must petition for review in writing stating facts that demonstrate the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.

In order to be timely, a petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Indiana Government Center North, 100 N. Senate Ave., Rm. N501, Indianapolis, IN 46204 within eighteen (18) days after the mailing date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the enclosed Final Determination of Acceptance will become final and binding.

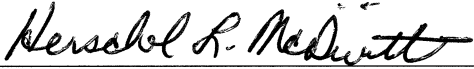
I certify that a copy of the referenced Final Determination of Acceptance was sent by First

Class Mail on the date indicated below to the following:

Karen J. Anspaugh, Attorney for Petitioner, P. O. Box 4212, Traverse City, MI 49685

I further certify that a notice of the approval of the Petition is to be published in the Vincennes Sun-Commercial newspaper in the earliest possible edition following the date of this Final Determination of Acceptance. The notice will advise interested persons that this determination is subject to appeal and review under IC 4-21.5-3-7 and provide instructions for the timely filing of a petition for administrative review.

May 18, 2010
Date



Herschel L. McDivitt, Director
Division of Oil and Gas